

The Private Sector's Role in Scaling Defense Financing in the Nordics:

Perspectives from the Defense Industry
and Capital Markets Stakeholders

Background

Nasdaq, the Boston Consulting Group (“BCG”), Nordea and Säkerhets- och försvarsföretagen (SOFF) have jointly coordinated this White Paper to establish a platform for further discussion and collaboration amongst private and public sector stakeholders in the Nordic financial and defense industries.

The paper’s objective is to present actionable recommendations from key stakeholders that can simplify investments and funding to support the scaling of the Nordic defense industry’s ecosystem.

Nasdaq, BCG, Nordea and SOFF thank all contributors for their valuable input and feedback throughout the process

1. Introduction

The geopolitical landscape of Europe has changed significantly due to Russia’s invasion of Ukraine, highlighting the need for stronger defense capabilities. The increased global trade turbulence in the spring of 2025 further emphasizes the necessity for the EU to enhance its own defense supplies.

While public entities must address much of the need for defense financing, the private sector can also mobilize substantial capital and offer efficient market-based solutions to improve regional resilience.

The EU Commission’s recent White Paper on the subject states:

“Boosting public investment in defense is indispensable, but it will not be sufficient. European companies including Small and Medium Enterprises and Mid-Caps must have better access to capital, including guarantee instruments for de-risking investments, to bring their solutions to the industrial scale and to drive the industrial ramp-up that Europe needs.”¹

EU President von der Leyen stated on March 4, 2025, that the ReArm Europe plan could mobilize nearly EUR 800 billion to create a safe and resilient Europe. The plan outlines strategies to unlock EUR 650 billion in public funding, with an additional EUR 150 billion expected through accelerating the Savings and Investments Union and leveraging the European Investment Bank. In addition, the NATO Secretary General Mark Rutte has confirmed that the alliance will seek to adopt a new defense spending target of 5% of GDP.

Accelerating the Savings and Investment Union requires activating all facets of the private capital market, including public equity and debt markets, bank financing, institutional and retail capital, venture capital, and private equity funds. It also requires innovative collaboration between member states, private companies, and investors.

¹ https://commission.europa.eu/document/download/e6d5db69-e0ab-4bec-9dc0-3867b4373019_en?filename=White%20paper%20for%20European%20defence%20E%20Readiness%202030.pdf

This paper focuses on the challenges and opportunities that the private sector can address independently or with governmental support. It highlights the Nordic region, which has the potential to become a hub for the EU's future defense industry due to its strong industrial base and success in providing capital to growth companies².

The insights are based on a roundtable discussion held in April 2025, featuring representatives from the Swedish government and its relevant agencies, defense industry companies, capital markets participants and asset managers. The roundtable was initiated by Nasdaq, BCG, the Swedish Security & Defense Industry Association, and Nordea. It centered around financing challenges ranging from R&D initiatives to large scale development.

2. Problem Statement

Capital and willingness to invest in scaling the Nordic defense industry ecosystem exist, with public and private investment support available. Despite this, industry participants face challenges in scaling. Studies have shown that SMEs in the defense industry have significant difficulties accessing both equity and debt financing and that in certain cases they refrain from seeking financing due to practical or policy related roadblocks³. This paper outlines some of these challenges and proposes ideas for further discussion or reform aimed at accelerating capital market participation in scaling the Swedish defense industry.

3. Challenges

In summary, the core challenges expressed by the private sector revolve around three major themes:

3.1 SMEs with Scale Up Ambitions

SMEs, such as established suppliers to larger defense companies, experience various challenges related to the scaling up of their manufacturing. First and foremost, one main challenge is for SMEs to manage the typical defense procurement process, which is generally a lengthy process yet with short contract time (in relation to the time it takes to scale up production). This results in limited requests for scale-up investments / funding as the uncertainty is too high for SMEs to commit to the time frames that are required for defense procurement practices. Secondly, although a willingness to invest generally exists, practical financing and investment challenges for SMEs include:

- i. A "catch 22" situation to secure financing. Start-ups and SMEs need to have a proven track record to be awarded a contract, while to receive such a contract they need to invest into facilities and capacity to demonstrate delivery ability. And to secure the financing for such investments they need the contract as a guarantee for future business.

² <https://www.ft.com/content/edc1bba0-25ca-4148-96f6-d67e30f11a2e>

³ <https://op.europa.eu/en/publication-detail/-/publication/54753f9f-aea9-11ee-b164-01aa75ed71a1/language-en>

ii. Typical contract structure requires considerable liquidity in relation to company size. With defense procurement agency contracts typically structured with payment at delivery, the supplier needs to cover the full cost of material, labor, sub-suppliers, etc. up until delivery. To manage this, SMEs often require external financing which, without guarantees, can also lead to a “catch 22” situation.

iii. Sub-suppliers take an unproportional risk due to lack of transparency. Sub-suppliers often have a limited ability to influence delivery and payment terms, guarantees, and specification changes – yet financing needs to be secured towards payments far-out and with tough penalties for delays or if delivery fails. In addition, they may lack transparency from the Prime on committed orders, stemming from the fact that most defense business is run as projects and material is typically ordered when needed (just in time) which leads to limited forecasting ability for sub-suppliers.

3.2 Early-Stage Innovation

Large, established defense OEMs have access to both equity and debt capital markets in Europe. However, there is a financing gap in the R&D and the Early-Stage Investment segment where important innovation is needed from an ecosystem of both established defence OEMs, start-ups, and non-traditional defence players.

Challenges for Early-Stage Innovators include:

i. **Expectations on cash flow.** Similar as for SMEs, there is currently a mismatch between the financial market's expectations on cash flows and the prevailing procurement cycles in the defense industry. Where timing from first release of a tender until payment can be several years and require large amount of investments into prototyping as well as industrialization.

ii. **Policy challenges.** The type of equity-risk investments that will need to be supplied is still hindered by ESG policies, which have led to a relatively small proportion of VC/PE funds engaging with the sector, so far, due to limited partners' exclusion policies. While some are changing policies and are opening up for 'dual use', it can still be a vague definition and still run the risk of excluding pure defense related applications due to policies. Further elaboration relating to ESG in more general terms in section 3.3.

iii. **Practical challenges hinder innovation.** Defense procurement agencies typically specify in detail the requirements of a solution, and to reach these levels companies typically need extensive experience from prior defense work. This practically excludes new innovators from entering the arena, which in turn limits the innovation power available to the defense sector.

3.3 Private investments need further transparency and guidance

Private and public asset managers have become more lenient towards the defense industry in their exclusion policies during recent years. The EU has clarified that no regulatory obstacles prevent asset managers from engaging in the defense industry and that there is no conflict between sustainability and the defense industry. Furthermore, actors like the European Investment Bank (EIB) and the Nordic Investment Bank (NIB) have updated their policies to allow more investments in defense. However, clear mandates and the development of a common language are needed to provide the necessary investments in building the EU Member States' defense capabilities going forward.

- i. Exclusionary policies amongst individual asset managers still persist and are often based on criteria that prohibit investments based on the sector or revenue streams stemming from armaments. While no regulatory obstacles exist, imprecise definitions can lead to inefficiencies as asset managers refrain from allocating capital where the intended use of proceeds could actually fit their mandates and/or their investors' objectives.
- ii. The capital required to scale European defense will not only need to finance weapons and ammunition, but a much broader set of categories, including dual-use technologies, cyber security and critical infrastructure.
- iii. Prevailing taboos among European investors must be addressed, and public opinion must shift to view defense sector investments through a resiliency lens. However, exclusionary policies will likely persist, and the capital markets must find tools to make them more precise and specific to avoid capital flows being hindered by blunt exclusions and instead focus on the financed technologies or assets.
- iv. A lack of granular transparency and a clear framework presents both practical obstacles and limits the extent to which asset managers can engage with their investors on the topic, leading to further uncertainty concerning policy formulation.

4. Solution Space and Recommended Areas for Further Discussion and Reform

To address the challenges outlined in this paper, the following areas have been identified as a potential solution space to unlock the private sector's role in scaling the Nordic defense industry's ecosystem.

1. Long-term investments are needed for scale-ups

Private and public sectors need to find solutions to provide growing companies with financing opportunities e.g. through ensuring that contract timelines and guarantees are adjusted by procurement agencies to enable more long-term investments for scale up, and through sharing capital risk through means such as offtake agreements and credit guarantees. The Nordic region has a strong track record in providing these solutions in other sectors. In a Swedish context, government agencies have a plethora of tools at their disposal for sharing risk with private investors. Solutions range from large credit guarantees to early-stage VC investments but are often coupled with requirements for private risk-sharing that can be difficult to obtain. With an ambition to drive innovation in defense-tech and create an ecosystem of smaller suppliers to the prime companies, it is crucial to find innovative financial solutions as well. There are promising initiatives underway, such as the newly established Deep-Tech VC Fund created in a private/public partnership with Saminvest, a venture capital company founded by the Swedish Government and initiatives such as the dual-use accelerator program established by Vinnova and the armed forces⁴.

2. Defense procurement agencies need to adapt to a new reality

Defense procurement agencies play a crucial role in revisiting typical procurement processes and practices, ensuring that serious industry participants, including SMEs, are not hindered by practical challenges. Examples include:

i. Offering more flexible payment terms

To reduce the need for and quantum of loans and other external financing, and enhance financial stability, it is crucial to offer more flexible payment terms. This can be achieved through milestone payments at various stages such as contract signing, production start, and first delivery. By implementing these flexible payment structures, companies can better manage their cash flow and reduce dependency on external financing.

ii. Inviting broader group of potential suppliers & developing programs for innovation

To foster innovation and achieve mission objectives, it is essential to invite a broader group of potential suppliers to the table, i.e. to extend the ecosystem. This approach should focus on solving the mission rather than stipulating the "how" in lengthy specification documents. By encouraging diverse perspectives and solutions, organizations can benefit from a wider range of innovative ideas and technologies. It would require a different procurement practice, where also the ultimate customer (the Armed Forces) would need to participate, possibly through smaller batch orders, continuous testing and iteratively provide input and feedback to progressed prototypes and solutions. These practices are to some extent already present within Special forces around the globe and likely needed to scale innovation capabilities also in conventional forces.

3. Transparency will simplify defense funding

Private capital markets can play a key role in facilitating transparency and specificity by creating a sound framework for investments in Defense and Resiliency. Asset managers consulted for this white paper have stated that a transparent framework would help navigate the traditionally excluded defense sector. Clear guidelines would allow asset managers to allocate capital more effectively to investments that suit their mandates.

To enhance transparency and ensure efficient capital allocation that is not hindered by imprecise exclusions, lessons can be drawn from innovations in the sustainable bond markets which has successfully established a mechanism for investors to choose not only sectors and issuers but also specific assets and projects to support. The thematic “labelled” bond market in the Nordics has focused largely on environmental sustainability but has also addressed crises like the Covid-19 pandemic with inspiration from market conventions in the sustainable bond market⁵.

Similarly, state treasuries, local governments and their agencies, and corporations could adopt a defined framework to meet the financing needs to strengthen our defense, resilience, and infrastructure. We have already seen examples of labelled defense bonds from Lithuania and Ukraine. However, recent issuance may have missed an opportunity to make use of the more developed concepts surrounding thematic sustainable bond issuance that flourished in the last decade.

Therefore, Nasdaq has designed a [framework](#) that will act as eligibility criteria for a market segment dedicated to investments that support defense, resilience, and infrastructure. In short, the framework builds on the successful sustainable bond market and sets out transparency and process related requirements that can be adopted by all types of bond issuers whose investments have a positive contribution to the EU or NATO member countries’ defense, resilience or infrastructure. The objective is to allow asset managers to select investment opportunities that meet their investors’ demands, whether it is armament, cybersecurity, or supporting infrastructure.

5. Closing words/Conclusion

In conclusion, enhancing our European defense capabilities presents both a significant challenge and a unique opportunity. To ensure effective and credible deterrence against our adversaries, it is imperative that the public sector reviews its practices and processes to fully leverage the private sector’s ability to scale and innovate. Capital exists and the willingness to invest is strong. With all fundamental pieces in place, synchronizing our efforts to accelerate the ramp-up is crucial. The armed forces in the Nordics and the procurement agencies must prioritize immediate actions, and there is a clear interest in collaborating on exploring more solutions from both public and private sector stakeholders. Once initial roadblocks are overcome, the private sector will develop a robust ecosystem for the defense sector to scale effectively.

We urge all relevant stakeholders to join us in this endeavor, contribute their expertise, and help shape a secure and resilient future for Europe.

Sources

SOFF/Case descriptions

Round table discussion April 2025

EU Comission White Paper: https://commission.europa.eu/document/download/e6d5db69-e0ab-4bec-9dc0-3867b4373019_en?filename=White%20paper%20for%20European%20defence%20E2%80%93%20Readiness%202030.pdf

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